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TRADE, DEVELOPMENT AND THE NEW INTERNATIONAL CHALLENGES: TOWARDS A PROGRAMME OF ACTION FOR STRENGTHENED MULTILATERAL CO-OPERATION AND SUSTAINABLE DEVELOPMENT - ELEMENTS OF A CONTRIBUTION TO UNCTAD VIII

Communication received from the Permanent Mission of Italy on behalf of the States members of Group B

Note by the UNCTAD secretariat

The Secretary-General of UNCTAD has received the following communication, dated 25 July 1991, from the Permanent Mission of Italy:

> "Please find herewith enclosed document OCDE/GD (91)127, issued on the responsibility of the Secretary-General of OECD and containing a wide range of ideas and suggestions on the major themes of the development agenda and on the ways to improve international co-operation.
>
> "On behalf of Group B, I wish to ask you to consider the aforesaid document as an official paper of the 8th Conference and to therefore circulate it as soon as possible to all the countries concerned (to this end, the necessary number of copies will be made available to your Secretariat).
>
> "The attached document cannot be regarded as a negotiating paper, but it certainly constitutes a contribution towards the achievement of a consensus at the forthcoming 8th session of UNCTAD on the requirements for effective development purposes and a sustainable global economy based on effective partnership between developed and developing countries."

In accordance with the above request, the attached document is being circulated as a document of the Conference.

GENERAL DISTRIBUTION

OCDE/GD(91)127

TRADE, DEVELOPMENT AND THE NEW INTERNATIONAL CHALLENGES: TOWARDS A PROGRAMME OF ACTION FOR STRENGTHENED MULTILATERAL CO-OPERATION AND SUSTAINABLE DEVELOPMENT

ELEMENTS OF A CONTRIBUTION TO UNCTAD VIII

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Paris 1991

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PREFACE

With the end of the Cold War and the dramatic changes throughout the world towards pluralistic democracy, respect for human rights and a competitive market economy, opportunities exist for new approaches to relations between developed and developing countries. There is a widening consensus on the development agenda and priorities for international co-operation. A new appreciation of the nature and scope of the development challenges ahead is spreading. The Policy Statement on Development Co-operation in the 1990s issued by DAC Aid Ministers and Heads of Aid Agencies in December 1989 stated that:

"The developed and other economically advanced countries cannot live in isolated enclaves of prosperity in a world where other countries face growing mass poverty, economic and financial instability and environmental degradation. Not only is this unacceptable on humanitarian grounds; the future well-being of developed countries is linked to economic progress, preservation of the environment and peace and stability in the developing world."

It is against this background that OECD Governments, at their Annual Ministerial Meeting in June 1991 agreed to continue their work in the Organisation to develop new approaches. They saw the forthcoming Eighth Session of the UNCTAD as providing a test of the determination to take further the new consensus on the requirements for effective development progress and a sustainable global economy, based on effective partnership between developed and developing countries.

This paper represents a contribution by the OECD towards this end. It has benefited from extensive discussion by the Group of the Council on Consultations for Major International Meetings. It is not a negotiating document. It rather points to the kind of outcome that it should be possible to achieve at UNCTAD VIII, building on the emerging international consensus on development priorities as the basis for a new era of cooperation between developed and developing countries through the decade and into the 21st century.

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I. THE CONTEXT - CHALLENGES AND OPPORTUNITIES IN THE 1990s

1. Not since the end of World War II has there been such a conjunction of fundamental challenges and opportunities in front of the world community. This is a period of new possibilities for a peaceful, co-operative world order, but problems and risks of great seriousness are equally a reality of the times. It is a period when the major achievements of international economic co-operation of the last few decades must be preserved and extended. There is a vital need for an open, expanding, multilateral framework to govern the era of global economic adjustment and development which lies ahead. All actors, old and new, developed and developing, must be able to promote and maintain market-based, growth-oriented, sustainable approaches to operating their economies and developing their role in the world economy with full confidence in the adequacy, effectiveness and equity of the basic principles of the multilateral system. They should also be able to adopt co-operative approaches to managing economic and social problems, and reducing military expenditures in line with legitimate requirements in a new security context.

2. The crucial importance of such a multilateral framework is now more widely appreciated than ever before. Indeed, it is becoming essential to define international rules of the game in more and more areas of both domestic and international economic activity. At the same time the political engineering required to advance and sustain the multilateral system is becoming more complex than ever. The multiplication of actors and issues, together with the need to resolve long-standing problems as a condition for further advance, poses often intense difficulties which can only be surmounted through courageous actions and comprehensive and continuous co-operation. The participation and commitment of all countries in this critical period will be essential in contributing to a substantial and comprehensive outcome to the Uruguay Round of multilateral trade negotiations.

3. Interactions between investment, trade and technology are operating to create new patterns in the global economy. Corporate decisions on sourcing, production and marketing of goods and services are increasingly taken within a global frame of reference. As a result, major shifts in the location of production and the product composition and geographical pattern of trade in goods and services are underway and new patterns of international investment and technology diffusion are emerging. A growing number of developing economies are actively involved in these broad transformations in the world economy. As the process of economic globalisation intensifies, multilateral co-operation on a widening range of economic policy issues becomes increasingly necessary to avoid and reduce international frictions.

4. While effective development depends primarily upon the developing countries themselves implementing appropriate policies, in an increasingly interdependent world, a particular responsibility rests with OECD countries to create and sustain a favourable global economic environment. The Members of the OECD understand their particular responsibilities in this context of increasing interdependence and the importance of acting in partnership with the developing countries across the range of major global economic issues. They recognise the links between appropriate domestic policies and a healthy international economic environment, and are conscious of the importance of their example. They will strive to help create the conditions for the wider multilateral order essential to sustainable development, peace, and prosperity in the future, accepting and sharing the responsibilities involved.

5. The situation of developing countries is increasingly diverse. Excellent economic progress was made by a number of developing countries in the

1980s, notably in Asia. Difficult structural adjustment and policy reforms were set in train by a wide range of developing countries. But the plight of many developing countries worsened considerably throughout the decade. In particular, the least developed countries experienced a significant deterioration in economic, social and ecological conditions, and many of these countries face a growing risk of marginalisation in the increasingly global market economy. Nevertheless, major progress is being made in the areas of market-oriented reforms, recognition of human rights and pluralistic democracy.

6. To achieve and sustain economic growth in the decade ahead, it is essential that all countries formulate coherent policies in the fields of economics, environment, social affairs and technology that are mutually reinforcing in support of broadly based sustainable development.

7. The list of challenges and opportunities in the 1990s is impressive:

Political and Economic Reconstruction

-- The transition to democracy and market economies in Central and Eastern Europe;

-- The political and economic reform process in the Soviet Union;

-- The striking move towards democratisation and market-oriented economic policies in Latin America;

-- The consequences of the Iraqi invasion of Kuwait;

-- Progress in the resolution of regional and civil conflicts;

Development, Demography and the Environment

-- The problem of global, regional and local environmental overload deriving from current development patterns in both developed and developing countries, and the domestic and international policy issues which these problems pose;

-- The increase in absolute numbers of people living in extreme poverty which threatens to undermine the significant social progress which has been achieved in many developing countries;

-- Population growth rates in many developing countries which are unsustainable;

-- Environmental problems exacerbated by poverty-linked population pressure such as over-exploitation of natural resources, and inadequate technological capabilities;

-- Potentially serious problems of mass migration linked to inadequate development progress, civil strife and natural disasters;

Economic and Social Trends and Issues

-- The progress made in the 1980s in re-establishing the conditions for sustained non-inflationary growth in the OECD area, progress which must be consolidated and reaffirmed in the face of new problems and situations at the beginning of the 1990s;

-- The evolving process of structural adjustment and domestic economic reform being undertaken in many developed and developing countries;

-- The quickening pace of advance in the "new technologies", which is opening up growth and development options around the world, but intensifying competitive pressures and tensions at the same time;

-- The complexity of world energy issues, with an intermingling of geopolitical, commercial and financial, environmental, technological and development factors;

-- The host of domestic and international economic, social, and security issues, involving both developed and developing countries, arising from rapid structural and technological change, uneven development progress, divergent demographic trends and unresolved political and ethnic problems;

Diversity of Situations in the Developing World

-- Economic and social trends in developing countries show a picture of extreme diversity:

. A number of economies in East and South-East Asia have become major actors in the global market economy. These economies are continuing to adhere with success to policies geared towards economic and political liberalisation, with accompanying social, economic and political transitions of varying scope and intensity in each of them;

. In Latin America, many countries are undertaking historic changes towards market-oriented economic policies and political democratisation, but this progress is uneven and often fragile;

. In India and China, important economic reform efforts in the 1980s brought accelerated economic growth, but serious macroeconomic stabilisation issues and other difficulties (albeit of a very different nature in each case) have emerged which will need to be resolved to ensure continued progress in the 1990s;

. In North Africa continuing strong labour force growth is outstripping job creation potential, presenting tremendous challenges for development strategies;

. Sub-Saharan Africa continues to pose the most difficult development problems. However, structural adjustment efforts are beginning to have some effect. There are significant developments towards economic and political pluralism;

. Recent developments in Southern Africa open up major new prospects for peace and economic progress in the region;

The Multilateral Trading System and its Evolution

-- The crucial, continuing effort to achieve a substantial and comprehensive conclusion from the Uruguay Round negotiations in order to:

. help counter protectionism and foster a more open and fully integrated world trading system which will benefit all countries;

. support the courageous efforts being undertaken by a considerable number of developing countries and the Central and Eastern European economies to integrate their economies more fully into the world trading system;

. underpin the adjustment efforts of the indebted developing countries;

-- The economic and institutional issues which face the GATT, the UNCTAD, other international organisations and the world community at large beyond the Uruguay Round, arising from the growing interconnections between trade, investment, technology and environment, and domestic and international policy questions and jurisdictions;

-- The increasing trend towards regional economic co-operation and integration, which can stimulate the multilateral liberalisation process and should be in conformity with international obligations and with the objective of maintaining and strengthening the multilateral trading system.

II. THE WIDENING CONSENSUS ON THE DEVELOPMENT AGENDA AND PRIORITIES FOR INTERNATIONAL CO-OPERATION

8. Over the course of the 1980s, the global policy dialogue has moved progressively towards more generally-shared perceptions of development problems and economic management issues. This progress has been impressive:

-- Interdependence has become accepted by all countries as a basic reality which must shape discussions of international economic relations;

-- The growing diversity among developing countries has been increasingly recognised;

-- The debates on structural adjustment and debt problems have been accompanied by progress in diagnosis, treatment and financial support;

-- The major developed countries have acknowledged the importance of strong international economic co-operation founded on appropriate national macroeconomic and structural policies which promote non-inflationary growth and structural adjustment and help to avoid unnecessary and undesired exchange-rate and financial market disturbances;

-- There has been a common recognition in recent years of the need to strengthen, and where necessary extend the role and instruments of key international economic institutions. The need and opportunity now exists to also improve the effectiveness and efficiency of the U.N. system in the economic and social fields.

9. Changes in the political and intellectual climate are making a major contribution to widening the basis for consensus:

-- There is a growing recognition of the importance of the market system, a strong private sector and effective government to the efficient functioning of economies at all stages of development;

-- It is also seen that effective markets must go hand in hand with participatory government, providing personal freedom and security as the basis for widespread involvement of the population in economic and political processes;

-- There has been broad acceptance of the need for sustainable development, based on strategies which encompass those environmental, economic, political and social factors which are crucial to longer-term development progress. Adopting appropriate policies and standards now can avert environmental problems and damage which can become obstacles to further development.

10. All of these elements of change and progress in international economic discourse can, and should, be drawn upon in creating a broad consensus to underpin international development co-operation in the 1990s. Such a consensus should:

-- Promote the concept of effective partnership between developed and developing countries based on recognition of mutual interests and shared responsibilities;

-- Assign a primary role to national policies as a key determinant of development progress and seek to build national capacities for realising development potentials and addressing national problems, including the problem of absolute poverty;

-- Attach major importance to good governance in order to foster the association of effective, efficient, equitable and accountable administration with individual rights and opportunities which is the essential condition for sustainable, broadly-based development;

-- Emphasise a number of strategic policy directions with a particular focus on human resource development, participatory development and establishing the right balance between the public sector and the private sector and market and non-market resource allocation mechanisms;

-- Emphasise also the complexity and diversity of economic, environmental and development problems;

-- Reinforce the critical linkages between trade and development by promoting the adequacy, effectiveness and equity of the multilateral system;

-- Identify the key policy parameters in both developed and developing countries which will maximise the mobilisation of domestic and external resources for development;

-- Promote sustainable development as a concept which can help to reconcile the objectives of growth and increasing trade with the need to preserve the natural resource base in the long-term.

11. OECD members are encouraged by the outcome of recent global development discussions, in particular, the general ideas to be found in the UN Special Session on International Economic Co-operation, the IDS and, especially as regards the least developed countries, the Paris Conference, which suggest that a consensus along the above lines is already forming. They consider also that a number of recent major reports have served to advance the development debate in this direction, notably the World Bank Reports on Poverty and on Long-term Perspectives for Sub-Saharan Africa, the Report of the South Commission, the UNDP's Annual Human Development Reports and the 1989 DAC Policy Statement on Development Co-operation in the 1990s. The convergence of thinking evident in these reports on issues and priorities for the 1990s, and the widening of the development agenda to include issues of governance, constitute a promising basis for practical co-operation.

III. ORIENTATIONS FOR NATIONAL POLICIES AND INTERNATIONAL CO-OPERATION IN SUPPORT OF DEVELOPMENT IN THE 1990s

12. In the present environment of increasing globalisation and technological advance, broadly diffused and sustainable economic growth and development requires more than ever that all countries formulate coherent domestic policies in the fields of economics, environment, social affairs and technology that are mutually reinforcing. A particular responsibility rests with OECD countries to create and sustain a favourable global economic environment. This requires that they address major policy challenges -- in their own interest and in the interests of all -- particularly in the fields of structural adjustment and national savings, as outlined below.

13. In turn, developing countries have increasingly recognised the importance of domestic policies as the foundation for economic success. The range of policy challenges that developing countries must address is set out below.

14. On the international level, developed and developing countries must join in co-operative efforts focusing on policies which integrate the shared objectives of:

-- Promoting sustainable economic growth and integration in the world economy, particularly of those developing countries which face the prospect of declining participation in it;

-- Reducing excessive military expenditures;

-- Enabling broader participation both by men and by women in productive economic activities and enabling markets and private initiative to play their full role, and encouraging a more equitable sharing of the benefits;

-- Promoting human rights, democratisation, open and accountable government institutions and the rule of law;

-- Ensuring environmental sustainability, and slowing population growth where it is too high for sustainable development;

-- Combating the illicit production, trafficking and consumption of narcotics.

A. National Policies

a) Developing Country Policy Orientations

15. Developing country policies should embrace the mutually necessary and reinforcing objectives of broad-based economic growth, participatory development and sustainability.

16. Growth is essential because it permits the basic structural transformations that make up the process of development and enable its sustainabilility, provides employment and generates the resources required to provide basic social services and improve living standards. There is widespread agreement on the elements which can promote broad-based growth and development:

-- Policies and incentive systems -- including market-based pricing -- which contribute to the fuller and more productive use of national resources, and appropriate diversification of the economic base;

-- Creating the conditions for a larger role for a productive private sector;

-- Policies and institutions which encourage domestic savings (and the return of flight capital) and their use for productive investment;

-- Liberalisation of trade regimes;

-- Economic and financial policies which avoid unsustainable fiscal and external imbalances;

-- Improved fiscal management;

-- A balanced approach to public expenditure which weighs carefully the tradeoffs among spending on investment, social programmes or military programmes;

-- Improving the efficiency, accessibility and sustainability of public services;

-- Effective, balanced systems of taxation.

ii) The notion of participatory development emphasises the importance for sustainable and equitable development of widespread participation in the productive and decision-making processes, in access to education, health and other public services and in access to the benefits of development. Market-oriented growth policies can contribute to greater participation by involving the masses of people in productive processes and strengthening the employment content of growth. But they need to be supported by special policies and programmes which emphasise the development of human resources, improved distribution of income and access to productive resources and services. Important elements of a strategy for participatory development include:

-- Promoting human rights, including effective and accessible legal systems;

-- Priority for programmes providing affordable, effective and sustainable services, such as for education, training and health, for all of the people, including the poor, and broad participation in selection, administration and financing of these services;

-- Strengthening the role of individual and community-based initiatives and private enterprise, and facilitating broad access to credit and productive assets;

-- Establishing a policy environment which will foster micro enterprises and better harness the dynamism evident in the informal sector;

-- Establishing criteria for the appropriate role of central government and a greater role for local organisations and NGOs;

-- Enabling active participation of women in the processes of development as decision-makers, producers and providers of basic care.

iii) Environmentally sound and sustainable development must also be a priority. Without major action, irreparable damage could be done to the resource base and natural environment in developing countries and thereby compromise development prospects. Since poverty is both a cause and a result of environmental degradation, growth and greater participation in development represent part of the solution to environmental management. But concern with environmental impacts and sustainability must necessarily be a fundamental element of strategies for growth.

17. These elements of domestic policies are valid for developing countries across the full range of income levels. Nonetheless, emphasis on certain elements may be appropriate depending on the special circumstances of some countries. The Programme of Action of the Second United Nations Conference on the Least Developed Countries, outlined priorities for national policies of the poorest nations (Principle No 2), and affirmed many of the requirements cited above.

b) Developed Country Policy Orientations

18. In addition to developing countries' own development efforts, OECD countries' policies can do much to improve the prospects for developing countries. Of primary importance to the emergence of a more fully integrated world economy in the 1990s will be the capacity and the willingness of the developed countries to foster structural adjustment. The effective further liberalisation of trade, including in services, and investment, the reform of Central and Eastern European economies and their integration into the global market economy, and the improvement of trade access for developing countries, particularly in sensitive areas, all presuppose that structural adjustment will take place in the developed countries. The scale of such adjustment is likely to be far-reaching, and while much of it will be accomplished by exploiting new opportunities, there is bound to be a strong measure of resistance stemming from economic and social rigidities and well-entrenched interests. Developed country governments will need to adopt a firm overall stance on the need for continuing adjustment and to further develop positive approaches in relevant fields, notably social, education, fiscal, employment and labour market policies as well as environment, transportation and energy.

19. A second priority for developed countries must be to ensure as far as possible that national savings are maintained and increased in the face of what is likely to be an intensifying demand for capital world-wide. If the OECD area as a whole is to be a net supplier of capital to the rest of the world in the 1990s, this implies generating an overall savings surplus in the area for the first time since the 1960s. There is room to encourage household savings by removing tax distortions which promote consumption at the expense of savings. Where there are such distortions countries should take action to correct them. But the key necessity for OECD Governments is to adhere to public-sector budget objectives -- or possibly even to make them more ambitious -- in order to release savings for adequate global levels of productive investment. Particular responsibility rests with countries which have large fiscal and current account deficits.

c) Public Management and Development

20. The quality of public management is closely linked to development success. If resources are to be allocated to the most effective uses, and the incentives for individuals to create real wealth to be sufficiently stimulating, then public management needs to be efficient, transparent and objective. These qualities are not always easy to provide, in developed and developing countries alike, but they are crucial nonetheless and require much greater emphasis in many countries if a dynamic development process is to take hold.

21. The powers of the State may not be subject to adequate accountability, either because of a lack of effective democratic control, or because the State has taken on such an extensive economic role (through intervention or ownership or both) that it can no longer be effectively monitored, even by the State itself. This situation inevitably creates a perverse system of incentives, encouraging economic agents to seek to profit from the State's role in the economy -- by obtaining licences or concessions or prolonged periods of protection. At the same time, genuine wealth creation tends to move outside of the formal sector because of the inefficiency or inappropriateness of the regulation of economic activity. A syndrome can develop involving the creation of a wealthy elite based on the economic rents deriving from the State, opportunities for corruption on a grand scale and widespread corruption on a petty scale, reflecting the daily practical problems created for the population at large. Such a syndrome is often combined with low levels of tax collection.

22. In such a situation the State cannot afford to provide either the social services or physical infrastructure that are essential to development. And the State also fails to generate fiscal viability or the degree of authority and commitment inside the country that are essential for effective ordering of its internal and external affairs. Thus the genuine wealth-creators, whether small or large, domestic or foreign, lack the element of confidence in the future and the minimal assurance of administrative and personal security which is essential to the investment process.

23. For these reasons the subject of "good governance", or "good management", has recently come to the fore as a strategic development issue. Effective action dramatically to improve effciency, transparency and objectivity, and to curtail the corruption which often results where these qualities are seriously lacking in the operation of the State involves a wide agenda of institutional and policy reform. Establishing effective systems of democratic control of executive action is central, since without proper mechanisms for public scrutiny, the accountability of the State will always remain illusory. The guarantee of basic human rights, the design and effective operation of political institutions, the professionalism of the civil service and the simplification and reduction of the State's economic role, should be major items on the agendas of many countries in the period ahead. But this general prescription has to be applied in the particular situations of individual countries, and its implementation can only be carried through by the people of each nation.

24. Developed countries have a special responsibility in some crucial ways. First, they can work to ensure that their own decision-making on issues affecting developing economies and aid programmes embodies a high standard of efficiency, transparency and objectivity. Special interest groups in the developed countries can distort decisions which impact on developing countries to their own benefit. Developed countries should also take great care to avoid committing scarce aid or other public funds to projects which lack a convincing development rationale, which have not been properly appraised and from which local elites or individuals in the recipient country stand to gain disproportionately. The developed country donors have adopted aid management principles which are designed to ensure that scarce aid and other public funds support only those projects and programmes which have a convincing development rationale and which have been properly appraised. Developed countries need to ensure that these principles are adhered to in all circumstances and that aid

does not contribute to perpetuating inefficient and inequitable patterns of resource allocation in recipient countries. Second, developed countries can help by providing non-partisan and carefully conceived programmes of technical assistance for the strengthening of political institutions, the defence of human rights and the reform of the civil service. Finally, donors are increasingly considering progress in the field of "good governance" as a highly relevant factor when making decisions as to the countries in which aid can be put to the most effective use.

B. International Policy Issues in a Development Perspective

a) Resources and Debt

i) Resources for Development

25. In the 1990s external financial flows to developing countries are likely to remain constrained in relation to overall financing needs. While, as noted above, developed countries should aim to generate net exports of capital, the internal and external call on their savings capacity will be high and budgetary pressures could well remain intense. Consequently, mobilisation of developing countries' own savings will have a key role in financing development.

26. Conditions for developing country borrowing in private capital markets are not likely to ease soon. Intensifying competition for capital and continuing high real interest rates are likely to be major features of the world economy in the 1990s. If such conditions are associated with an expanding world economy -- as the modernisation and restructuring of the central and eastern European economies gathers pace and reconstruction proceeds in the Gulf -- expanding world trade and firmer commodity prices may improve trade prospects for developing countries and mitigate problems associated with tighter capital markets. If on the other hand world growth is sluggish, the tradeoffs would be different. World capital markets might be easier and real interest rates possibly lower, but developing countries' terms of trade and export prospects would be worse and this could make it more difficult to resolve debt problems and to attract private capital.

27. OECD countries have reaffirmed that their determination to give high priority to their co-operation with developing countries will not be diminished because of their support for Central and Eastern Europe, nor by the developments in the Gulf region. They have recognised that in view of the huge development tasks ahead, particularly given the strong efforts towards democratisation and policy reform throughout the developing world, substantial additional aid efforts will be required both quantitatively and qualitatively. They have taken note of the target already established by international organisations for the future level of development assistance (0.7% OF GNP). In the context of the recent Paris Conference OECD countries have agreed that a significant and substantial increase in the aggregate level of external support should be made available to the Least Developed Countries. They have also agreed on the accompanying recommendation concerning options for implementation for various categories of donor countries.

28. Domestic resource mobilisation will have an especially strategic role in the 1990s, consistent with many of the development policy orientations outlined earlier. The savings potential in developing countries, on the evidence in a

range of countries, is much higher than has generally been estimated. The mobilisation of domestic savings has in itself a high developmental value, since it both presupposes and helps to foster financial markets and deepen financial intermediation in local and national economies. In this regard, improved domestic policy environments should help to stem capital flight from developing to developed countries. The strategic emphasis on private sector development requires the parallel development of a strong, widely-based domestic financial sector able to transact with small and medium-sized borrowers and lenders.

29. The public finances in developing countries should make their contribution to the mobilisation and effective allocation of domestic resources. Growing tax revenues should arise from a widening of the tax base as development proceeds; this however presumes a favourable environment for private enterprise, tax regimes which are regarded as equitable and enforceable, and a generally favourable image of the government's efficacy. On the expenditure side, determined action to eliminate wasteful outlays including excessive military spending, and to target expenditures more clearly should free resources for development.

30. Attracting private external finance requires above all, confidence in the general environment for enterprise and in the efficacy of government. It also requires adaptation of the policy and regulatory environment to foster the important role that foreign direct investment could play in many developing countries. However, outside of the natural resources sector, foreign direct investment is likely to play a major role only in those countries and regions where policy conditions have created a real prospect of sustainable economic development and thus of expanding internal market opportunities as well as an increasingly educated labour force for employment in export activities.

ii) Debt

31. For all countries with unresolved debt problems, the fundamental priority is to achieve control of fiscal and monetary policies. The struggle which this has already entailed testifies to the political and economic policy challenges inherent in this task. Nevertheless, domestic stabilisation and the fostering of public confidence in economic policy are prerequisites for the reduction of domestic real interest rates, the renewal of investment growth and effective participation in an expanding world economy. External debt reduction has an important part to play in this context.

32. Since UNCTAD VII, the forms and modalities of debt relief action have been evolving, with a view to accelerating the resumption of domestic investment, exports and growth of developing countries. OECD Members consider that the Resolution on Debt and Development Problems of Developing Countries, adopted by the UNCTAD Trade and Development Board at its thirty-seventh session in October 1990 represents a good consensus on the debt situation and the evolving strategy for dealing with it.

33. Continuing efforts are being made to deal with the problems of severely indebted countries in various income categories:

-- For <u>severely indebted low-income countries</u>, official debt relief action is taking place in conjunction with increased bilateral and multilateral disbursements, including through the Structural Adjustment Facility, the Extended Structural Adjustment Facility and the Special Programme for Africa. A series of initiatives for debt-distressed countries has led to new debt relief measures in the

Paris Club, in particular the 1988 Toronto terms for countries undertaking structural reforms. Under the "sixth dimension", World Bank funds are being used to buy commercial debt. A large number of donor countries continue bilaterally to extend additional official debt forgiveness and/or financing for private debt buy-backs;

-- In 1990, the Paris Club introduced special terms including longer maturity, as well as, on a voluntary basis, limited debt conversions for lower-middle-income countries;

-- Under the Brady Plan, a growing number of heavily-indebted middle-income countries are benefiting from official financial support of the World Bank, the IMF and Japan for large reductions of bank debt. More generally, considerable reduction is taking place through market mechanisms (including debt conversions and buy-backs);

-- Proposals have also been made by a number of governments, such as France, the Netherlands and the U.K, which would introduce new public-debt reduction measures for severely-indebted low-income countries, and efforts are being made by the US to put in place the Enterprise for the Americas Initiative which aims to promote investment, trade liberalisation and debt reduction in Latin America.

34. These actions bear witness to the considerable flexibility of official and private lenders in responding to the needs of debtor countries implementing sound adjustment programmes.

b) International Trade and Commodities

35. The globalisation of international commerce and the increasingly technology-intensive and knowledge-intensive character of production, distribution and marketing infrastructure means that developing countries in general and the less-advanced developing countries in particular are facing greater challenges than ever in penetrating world markets. This applies increasingly to trade in manufactures, but also to trade in commodities. Competition among developing country producers is intensifying. Those countries which have open trade policies, greater human and technical capabilities and effective incentives for enterprise development and rational resource allocation are producing at lower cost and with higher quality. They will continue to take market shares from countries unable or unready to compete in these areas.

36. Over the past decade world trade has consistently expanded faster than world output, reflecting the increasingly international nature of economic activity and growing interdependence. The interactions between trade, investment and technology are also creating a movement from national markets to a global market economy. This highlights the need for continued efforts to foster a more open multilateral trading system. A determined effort to achieve a substantial and comprehensive outcome to the Uruguay Round negotiations as soon as possible is therefore crucial to counter protectionism and promote

necessary market-oriented structural change. The new, strengthened trading system that will result from the Round should progressively lead to fuller and more satisfactory integration of the developing countries, and the European economies in transition, into the world economic system.

37. In the context of the GATT Uruguay Round, the full inclusion of agriculture and the introduction of the "new areas" of services, trade-related investment measures and intellectual property for the first time have made negotiations particularly complex and wide-ranging. OECD countries recognise the importance of all countries improving market access and other conditions affecting trading opportunities in areas of particular relevance to developing countries, such as agriculture, tropical products, textiles and natural resource based products. At the same time, structural reform efforts, including inter alia reduction of support policies, must be undertaken by developed and developing countries alike to eliminate distortions in international competition and domestic resource allocation.

38. Moves to greater regional co-operation, particularly through free trade areas and customs unions, may prove useful as a stepping stone to promote further multilateral liberalisation. The most advanced examples of these kinds of arrangements have to date been among developed countries (the EC 1992 Single Market Programme; the Canada-US FTA; the Australia-New Zealand Closer Economic Relations Trade Agreement). Plans for a North American Free Trade Area to include Mexico, the Enterprise for the Americas Initiative by the President of the United States, and the Malaysian proposal made in late 1990 for an East Asia Economic Grouping (EAEG) are examples of countries at varying levels of development exploring regional trade liberalisation possibilities. Although there are numerous regional economic groupings among developing countries, to date these have not been judged successful for a variety of reasons. Considerable potential exists, however, for increased South-South cooperation. New co-operative initiatives among developing countries, particularly in Latin America, point to renewed interest in the potential for co-operation among developing countries to underpin trade expansion, economic development and often also political progress.

39. A determined effort to reach a satisfactory conclusion to the Uruguay Round will be a key factor in shaping the international trade and commodity environment for the 1990s. But a favourable international environment is not a sufficient condition for launching a process of sustainable development. Long-term success in generating economic diversification and appropriate export volume growth is clearly also dependent on building up adequate capacity on the supply-side through relevant domestic structural reforms and infrastructure investment.

40. Increased co-ordination among donors and international agencies in assisting commodity production and marketing will be necessary in order to avoid inconsistencies in advice and potential over-investment in particular sectors, and to ensure that environmental aspects are duly integrated into all commodity projects. The Common Fund's Second Account, which is designed to improve competitive abilities by financing research and development, quality and productivity improvements and market promotion, could prove useful in this respect, provided its operations are fully integrated within the broader economic framework within which development is taking place. But it needs to

be emphasised that what is basically involved is decades of fundamental development progress.

41. International commodity prices over the past decade have been marked by a considerable degree of volatility and continue to be. Experience shows that effective price stabilisation has been extremely difficult to achieve. Efforts to sustain international commodity agreements with economic clauses are likely to be successful only where a number of conditions are fulfilled, including a sufficiently strong shared interest, and they ought to reflect market prices over the long term. Market transparency is important; exchanges of views and information between producers and consumers of commodities can facilitate it. Furthermore, the fact that developing countries are increasingly becoming net importers of commodities must also be taken into account.

42. In light of all these factors, a programme for international co-operation in the trade and commodities areas would involve:

- Commitment on the part of OECD countries further to expand market access, particularly in areas of interest to developing countries;
- Commitment on the part of developing countries to continue and carry further appropriate domestic structural adjustment policies, and to rehabilitate or modernise the infrastructures required to compete in world markets;
- A search for ways to improve commodity market transparency through exchanges of views and information between producers and consumers of commodities;
- Where commodity price fluctuations are disruptive in terms of effective economic management, even when international stabilisation facilities such as CCFF and Stabex are available, technical and financial assistance to encourage developing country use of financial instruments (including hedging, commodity swaps and futures markets), to manage price and other commodity-related risks could be a useful avenue of co-operation;
- An active developing country component in trade and development co-operation with successful developing countries providing increased market access, expertise and guidance, based on their success in generating vertical and horizontal diversification;
- Achieving a common understanding of how to ensure that the goals of trade liberalisation and environmental protection can be made complementary;
- Increased co-ordination among donors and international agencies in assisting commodity production and marketing.

c) Services

43. The important developmental role of the services sector is now being recognised. This wide-ranging sector plays a key role in domestic economic and social development, as well as in supporting the development of international trade. Efforts to reach an agreement that would ensure the liberalisation and expansion of trade in services in the context of the Uruguay Round of multilateral trade negotiations are therefore of crucial importance to all countries.

44. A growing number of developing countries is now in a position to develop exports of services in a range of areas. In particular, the establishment of adequate infrastructure, including access to information networks, and progress in human resource development are necessary to underpin the potential of informatics and telecommunications to multiply the contribution of the services sector to the development process.

d) Technology

45. In all countries, developed and developing alike, the capacity to absorb, manage and benefit from technological change is recognised to be increasingly central to their ability to achieve economic and social progress in a globalizing world economy. The policy issues involved are not narrowly technology-centered in nature, but rather extend to a broad range of political, economic and social factors.

46. The key requirement is for developing countries to build up a capacity to evaluate, select and acquire or generate technologies relevant to their individual national situations and problems. Given that developing countries, including even the poorest among them, will need to draw on a wide range of technologies, from the high to the low-end of the spectrum, this is itself an enormous challenge. This demands that expertise in science and technology is incorporated into the centre of economic decision-making and public expenditure planning; it demands also that science and technology issues be incorporated into debate and decision-making at all levels and in all sectors of the economy, whether public or private. Education systems have a vital role to play -- both in creating a wide knowledge of basic science and receptivity to technological change and in fostering a critical mass of scientists and technologists to adapt and generate needed technologies.

47. As with all other components of development, technology efforts will be misdirected and wasted unless there is a sound economic policy framework in place with markets giving accurate signals to stimulate technological innovation and to guide the choice of technologies. A frequent bias exists towards the selection of overly capital-intensive technologies which tend to be exacerbated by certain practices of aid agencies and by business interests. Correcting these distortions is a matter of utmost importance, since what is at stake is the effective use of scarce capital and its employment generating potential.

48. Developing countries also need to provide full protection for intellectual property -- whether domestic or foreign -- in order to encourage the production and supply of technologies relevant to their needs. An effective multilateral intellectual property regime is therefore essential to the interests of developing countries. Of equal importance is the fostering of a strong private sector and of foreign direct investment in order to harness the central role of the firm in introducing and diffusing technological advances.

49. The poorer, aid dependent developing countries suffer from critical handicaps in the field of science and technology. The institutional and human resources which are essential to the process of selecting, acquiring and diffusing science and technology are largely absent from these countries and they are falling further behind those developing countries who have this capacity. The large role which donors play in such countries as suppliers of technology through projects and through technical assistance may not address this problem fully and indeed can itself be a source of distortion if the technological choices made are donor driven rather than deriving from priorities and strategies set by the developing countries themselves. And in the absence of strong aid co-ordination mechanisms, the donor community may collectively introduce a wide range of different technologies and equipment without creating a real sustainable technological capacity in the developing country. It is therefore crucial that the donor community focus its attention on building endogenous capacity for managing technology in these countries. The recent reports of the United Nations Centre for Science and Technology in Development (UNCSTD) and the Orientations emerging from the May 1990 DAC Experts Meeting on Science and Technology in Development Co-operation in the 1990s (see Managing Technological Change in the Less Advanced Developing Countries, OECD, 1991), provide a framework for tackling these challenges. Important indications are also set out in the Report of the South Commission and, particularly with regard to the Least Developed Countries, in the Programme of Action of the Paris Conference (paras 104-105).

50. International technology co-operation has a very important role to play in helping developing countries to harness science and technology to meet their development problems. It is essential to define and use co-operative mechanisms which can help to ensure that the world's scientific and technological knowledge and resources contribute appropriately to advancing the development process and resolving problems of both national and global concern in developing countries. A large number of formal and informal networks drawing together expertise from around the world to define and to tackle problems in developing countries, in conjunction with local experts and research centres already exists. There is much scope for reinforcing and where necessary, adding to, such networks.